

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Harlan County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,056,197 for the districts for 2010 taxes, retaining commissions of \$377,622 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,639,461 to the districts for 2010 taxes. Taxes of \$62,020 are due to the districts from the Sheriff and refunds of \$27,102 are due to the Sheriff from the taxing districts.

Report Comments:

- 2010-01 The Sheriff Should Collect And Distribute Additional Amounts From And Due To Others
- 2010-02 The Sheriff Should Strengthen Internal Controls Over Franchise Billings
- 2010-03 The Sheriff Should Properly Prepare Monthly Reports and Should Not Disburse Checks For Unavailable Funds

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin J. Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Sheriff Should Collect And Distribute Additional Amounts From And Due To Others
- 2010-02 The Sheriff Should Strengthen Internal Controls Over Franchise Billings
- 2010-03 The Sheriff Should Properly Prepare Monthly Reports and Should Not Disburse Checks For Unavailable Funds

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2011

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,811,955	\$ 1,041,030	\$ 1,855,402	\$ 686,517
Tangible Personal Property	880,268	480,341	880,723	975,954
Fire Protection	7,082			
Franchise Taxes	216,454	119,052	213,590	
Additional Billings	616	355	659	241
Gas Property Taxes	140,055	80,467	171,372	53,064
Oil Property Taxes	28,070	16,127	34,347	10,635
Limestone, Sand and Mineral Reserves	998	573	1,221	378
Bank Franchises	87,789			
Penalties	24,181	13,789	26,322	11,259
Adjusted to Sheriff's Receipt	(8)	(183)	(1)	(33)
Gross Chargeable to Sheriff	3,197,460	1,751,551	3,183,635	1,738,015
<u>Credits</u>				
Exonerations	29,089	16,201	12,676	6,922
Discounts	43,411	23,420	42,571	25,320
Delinquents:				
Real Estate	145,170	83,405	150,187	55,002
Tangible Personal Property	3,971	2,167	2,646	3,918
Franchise Taxes	646	345	609	
Franchise Uncollected	63,231	35,339	68,218	
Total Credits	285,518	160,877	276,907	91,162
Taxes Collected	2,911,942	1,590,674	2,906,728	1,646,853
Less: Commissions *	123,758	67,604	116,269	69,991
Taxes Due	2,788,184	1,523,070	2,790,459	1,576,862
Taxes Paid	2,779,692	1,522,022	2,745,987	1,591,760
Refunds (Current and Prior Year)	1,441	799	1,605	351
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	\$ 7,051	\$ 249	\$ 42,867	\$ (15,249)

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES
For The Period April 16, 2010 Through April 15, 2011
(Continued)

* Commissions:

4.25% on \$ 6,149,469

4% on \$ 2,906,728

** Special Taxing Districts:

Library District	\$ 10,015
Health District	(3,438)
Extension District	2,087
Soil Conservation District	<u>(8,415)</u>

Due Districts or

(Refunds Due Sheriff)	<u>\$ 249</u>
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HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harlan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 6, 2010 through April 15, 2011.

Note 4. Interest Income

The Harlan County Sheriff earned \$827 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of December 5, 2011 the Sheriff is due \$12 in interest from the school district and owes \$36 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$50,396 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of December 5, 2011, the Sheriff is due a refund of \$1,550 in 10% add-on fees from his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After three years, if the funds have not been claimed, they should be submitted to the Kentucky State Treasurer. For the 2010 taxes, the Sheriff had \$198 in unrefundable duplicate payments and unexplained receipts. There was a balance of \$5,366 as of April 16, 2010 for surplus money from prior years. The Sheriff had receipts of \$322 and disbursements of \$4,874 for an ending balance of \$814 as of April 15, 2011. Therefore, the Sheriff should send a written report to the Treasury Department.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 7. Uncollected Franchise Bills

The Harlan County Sheriff had 5 uncollected franchise bills. These bills were prepared by the Harlan County Clerk and delivered to the Sheriff; however, the Sheriff failed to mail these bills to the taxpayers, resulting in an uncollected franchise total of \$166,788.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Harlan County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated December 5, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Harlan County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-02 and 2010-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The Harlan County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2011

COMMENTS AND RECOMMENDATIONS

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2010 Through April 15, 2011

COMPLIANCE AND OTHER MATTERS:

2010-01 The Sheriff Should Collect And Distribute Additional Amounts From And Due To
Others

Based upon test procedures, our audit reflects the following refunds that should be collected from the appropriate districts, so that the Sheriff can distribute the following amounts due to the appropriate parties. There were several bookkeeping errors which occurred during the tax year, resulting in these balances:

- Distributions were overpaid to all districts for April Collections. The Sheriff collected refunds from all districts except the Kentucky State Treasurer. Therefore, a refund is due from the Kentucky State Treasurer.
- Distributions were overpaid to the Health Department for April Gas Collections. No refund was collected during the tax year.
- Distributions to the Library and Soil Conservation districts were transposed for March regular collections. Amounts due to the Library were paid to the Soil Conservation, and vice versa.
- Distributions to Harlan County Fiscal Court for May franchise collections were underpaid, resulting in an additional amount due to the Fiscal Court.
- A second refund for the overpayment of April Collections was erroneously collected from the Harlan County Board of Education, resulting in an additional amount due to the school district.

We recommend that the Sheriff collect these additional amounts due from others and distribute the additional amounts due to others as shown below.

2010 Tax Account

<u>Refunds Due To Tax Account</u>		<u>Amounts Due To Others From Tax Account</u>	
<u>District</u>	<u>Amount</u>	<u>District</u>	<u>Amount</u>
Kentucky State Treasurer	\$ 15,249.03	Harlan County Fiscal Court	\$ 7,050.38
Health	3,438.21	Harlan County Board of Education	42,867.44
Soil Conservation	8,414.55	Library	10,014.36
Add-on Fees From Fee Account	1,550.11	Extension	2,087.31
Interest Due From School	12.46	Interest Due To Fee Account	36.05
Commissions Due From School	1,855.61	Commissions Due To Fee Account	815.31
	<u>\$ 30,519.97</u>		<u>\$ 62,870.85</u>

Sheriff's Response: The computer collection system had issues with proper calculations not only with this office but several other Sheriff's offices as well.

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2010 Through April 16, 2011
(Continued)

INTERNAL CONTROLS – MATERIAL WEAKNESSES:

2010-02 The Sheriff Should Strengthen Internal Controls Over Franchise Billings

During testing of franchise collections, auditor noted that the Sheriff's office did not mail five franchise billings prepared by the County Clerk, resulting in an uncollected total of \$166,788. To ensure proper reporting of franchise billings, the Sheriff should ensure all franchise billings are mailed. We recommend the Sheriff strengthen internal controls over franchise billings to ensure all billings are mailed and collections are properly reported.

Sheriff's Response: During this time, the County Clerk delivered these . . . and I was unaware they had been delivered. Once I became aware of this matter, I corrected it.

2010-03 The Sheriff Should Properly Prepare Monthly Reports and Should Not Disburse Checks For Unavailable Funds

While performing the tax audit, we noted that the Sheriff overpaid distributions to all districts for April collections, creating a negative balance of (\$118,040) in the tax account. As a result, the Sheriff incurred \$125 in fees for insufficient funds. This error occurred because distributions were paid based on a monthly report which included all collections for the month, rather than regular collections only. We recommend the Sheriff collect the \$125 in fees as a reimbursement from the bank or from personal funds. In the future, the Sheriff should distribute amounts due properly and not pay disbursements unless there are sufficient funds available.

Sheriff's Response: I have put measures into place to correct this matter.

